

Statement of the Honorable Donald L. Evans  
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Madame Chairwoman Pryce, Vice Chairwoman Biggert, Ranking Member Maloney, thank you for the opportunity to participate in this important hearing on increasing efficiency and economic growth through trade in financial services. And thank you for your leadership on the critical issue of the importance of trade to our nation's economy and the broader global economy.

I am here as the chief executive officer of the Financial Services Forum, a financial and economic policy organization comprised of the chief executives of 20 of the largest financial institutions with operations in the United States. The Forum's purpose is to promote policies that enhance savings and investment and that ensure an open, competitive, and sound global financial services marketplace.

I strongly believe that two of the greatest challenges confronting the United States and the world today are the need to address persistent poverty, and the need to effectively deal with the challenges associated with globalization. I am convinced that freer and more open trade is perhaps the most powerful tool at our disposal in both efforts, and that the multinational framework known as the World Trade Organization is critical to maintaining an open global trading system governed by the rule of law.

Madame Chairwoman, as you know, my schedule today is such that I am only able to make an oral statement. I apologize for the brevity of my appearance, and very much appreciate the chance to discuss a topic so critical to the well-being of our economy, our nation, and, indeed, our world. My colleague, Rob Nichols, President of the Financial Services Forum, will be delighted to answer any questions that Committee members might have. My brief remarks today will be accompanied by written testimony, which will be submitted for the record.

Chairman Oxley, before I begin, on the occasion of your recent announcement to retire at the end of your current term, let me congratulate you on a remarkable career of public service. For ten years you have faithfully represented the interests and concerns of your constituents in Ohio's 4<sup>th</sup> District, and for nearly six years you have lead this distinguished Committee. Over that period, you have been a tireless advocate of the individual investor and depositor, and have worked hard to ensure that the U.S. financial system remains the envy of the world. I thank you for your service to our nation, and wish you well as you move on to new endeavors.

## **Trade as a Path To Peace and Prosperity**

Madame Chairwoman, as you know, the World Trade Organization (WTO) was established in 1994 during the Uruguay Round of trade negotiations – the eighth round of multinational negotiations held under the General Agreement on Tariffs and Trade (GATT). The GATT was created in 1947 as part of the world’s response to the devastation of World War II and the policy failures and Great Depression that led in part to that historic calamity. The organizing principal was simple and inspired – to promote global stability and security by expanding economic opportunity and raising living standards around the world.

The connection between trade and economic development had been made 170 years earlier by Adam Smith in his classic work “The Wealth of Nations.” Trade, Smith explained, increases the size of markets, thereby promoting competition and all the associated benefits, such as greater efficiency, lower prices, and innovation. Trade also provides access to the resources, goods, and services that nations lack or can only make with great difficulty. Trade, therefore, promotes peace by substituting internal development for territorial enlargement through conquest. To these seminal observations, British economist David Ricardo added his notion of comparative advantage, whereby countries with very different capacities and levels of productivity can still trade to mutual benefit.

The great significance of the GATT was that it marked the first time the world had enshrined these principals in a multinational framework aimed at promoting global economic growth and development by reducing barriers to trade.

And the results, have been nothing short of phenomenal. Between 1950 and 1998, global economic output rose by 530 percent, while the volume of merchandise exports rose 1,840 percent. Over that 50-year period, the ratio of trade to global output tripled, from about 7 percent to more than 20 percent. In what has been the most dynamic era of economic development in human history, trade has become the basis for a prosperous world economy.

Openness to trade has also become the distinguishing characteristic of the world’s most productive economies. Capitalizing on trading opportunities is a major reason why small but open economies such as Finland, Hong Kong, Singapore, and Taiwan are able to generate standards of living far higher than most of the world’s largest and resource rich countries, including China, India, Indonesia, and Brazil.

Academic research has established that countries that have more open economies and that engage in international trade enjoy higher growth rates and faster reductions in poverty than more closed economies.<sup>1</sup> The World Bank has also determined that over the past two decades, those developing countries that engaged in trade enjoyed the fastest growth in wages.<sup>2</sup> Indeed, since World War II, no nation has prospered without exploiting opportunities to trade.

It should also be emphasized that the gains associated with free trade have not been purely economic in nature, but also political. China’s remarkable ascent over the last twenty years followed Deng Xiaoping’s decision to emulate what he saw happening in Taiwan and to set a course of greater openness. And China’s progress helped inspire India to embark on its own ambitious program of trade and foreign investment liberalization. The resulting accelerations

in economic growth – to an average annual rate of 6 percent in India and more than 9 percent in China – have lifted hundreds of millions of people out of poverty, perhaps the greatest achievement in the war on poverty in history.

Of course, it hasn't just been the rest of the world that has reaped the rewards of trade. Lest we forget – and too many of us, it seems, do forget – the United States of America has benefited enormously from freer and more open trade. The U.S. represents about 18 percent of global trade and is the world's largest exporter. Since the creation of the WTO ten years ago, U.S. exports of good and services have increased 65 percent to more than \$1 trillion, with manufacturing, agricultural, and high technology exports growing by 65, 38, and 67 percent, respectively.

Thanks in large part to the passage of the North American Free Trade Agreement (NAFTA), over that same period, U.S. exports to Mexico more than doubled, while exports to Canada and the EU grew by 66 and 56 percent, respectively. The growth in exports to China has been even faster, nearly quadrupling over the past 10 years. China's entry into the WTO in December of 2001 greatly improved market access, with China committing to reduce its tariffs on industrial products, which had averaged 25 percent, to an average of about 9 percent.

The recent passage of the Central American Free Trade Agreement (CAFTA) will add to this progress by providing American exporters with clear access to a market of 44 million consumers, creating the second largest U.S. export market within Latin America – larger than Russia, India, and Indonesia combined.

Many people think of trade as benefiting mainly large corporations, and so it's important to note that small businesses are increasingly important players in the global economy, with a critical stake in advancing U.S. interests in the WTO agenda. Between 1992 and 2002, U.S. exports from small and medium-sized enterprises rose 54 percent to \$158.5 billion.

The relative importance of trade to the U.S. economy has also increased. Twenty years ago, the total value of U.S. exports and imports amounted to 17 percent of America's GDP. Today, trade accounts for a quarter of our economic output – and the jobs of more than 12 million American workers. Add to that the nearly 7 million American workers currently employed by foreign firms who outsource jobs to the United States. Honda employs 24,000 Americans, and is the largest single employer in central Ohio; Nestle employs 43,000; BMW employs 5,000 in South Carolina alone; Toyota will soon open a new plant in San Antonio, Texas, adding 2,000 new jobs to the 33,000 Americans the company already employs.

By offering prosperity in return for peaceful exchange and market-led cooperation, trade has become the foundation for progress around the world. The critical task before us now is to build on our achievements of the past sixty years by extending freer and more open trade to those countries and regions that have not as yet enjoyed the developmental power of international trade.

## **The Critical Importance of the WTO**

The Uruguay Round of the early 1990s was significant in that it expanded coverage of GATT rules beyond manufactured goods to include agricultural trade, services, trade-related investment measures, intellectual property rights, and textiles. But the Round's most significant achievement was the creation of the WTO to administer GATT agreements and to settle disputes among WTO members.

WTO membership now includes 148 nations. Additions of significance over the past decade include not only China, but also Jordan, Cambodia, and several former Soviet Republics. And membership negotiations for more than 20 other countries, including Russia, Vietnam, Ukraine, Saudi Arabia, Afghanistan, and Iraq are ongoing. Such sustained interest in joining the WTO – particularly given that fact that membership criteria today are far more demanding than under the GATT regime – underscores the importance the world attaches to membership in the WTO, as well as the significant benefits associated with a member-driven, rules-based approach to the global trading system.

The creation of the WTO was in many ways the culmination of a decades-long, bipartisan American commitment to lead the world away from economic isolationism and toward an open, rules-based global trading system. And the United States continues to exercise its leadership in the WTO. For example, the U.S. aggressively uses WTO machinery to enforce our hard-won trade-related rights. Since the creation of the WTO in 1994, the U.S. has brought more dispute settlement cases than any other member, cases involving products ranging from apples and dairy, to biotechnology and telecommunications.

The WTO also advances U.S. interests on a day-to-day basis through the more than 20 standing WTO Committees that meet regularly to administer agreements, allow members to exchange views, and to develop initiatives aimed at improving existing agreements and their operation.

Responding to U.S. leadership, the WTO's agenda has provided the path for significant market-opening progress over the past decade, such as concluding the Information Technology Agreement (ITA) to eliminate tariffs worldwide on IT products, and bringing the Basic Telecommunications Agreement into effect, which opened up 95 percent of the world's telecommunications markets. Both achievements enable citizens around the globe to take advantage of the Information Age.

Study after study shows that the WTO's rules-based system promotes openness and predictability, leading to increased trade and improved prospects for economic growth in member countries. In addition, by promoting the rule of law, the WTO fosters a better business climate in developing countries, which helps them attract more foreign direct investment, thereby increasing economic growth around the globe.

Simply put, in a world where over 95 percent of consumers live beyond our borders, the WTO is an essential tool for advancing U.S. interests.

WTO countries are currently participating in the ninth round of negotiations, called the Doha Development Round, which was launched in Doha, Qatar, in November of 2001, in the immediate aftermath of the September 11<sup>th</sup> terror attacks. The main areas of focus in the negotiations are agriculture, industrial market access, services, trade facilitation, WTO rules and the promotion of economic development.

As has been the case before, the Doha negotiations have an effective deadline – the expiration of President Bush’s “fast-track” authority in July of 2007. To meet this deadline, the President would likely have to present the text of any agreement to Congress by sometime early that Spring – meaning the Doha negotiations must successfully conclude by the end of 2006.

A successful conclusion to the Doha Round matters for at least four important reasons – reasons that everyone in this room should care about:

- First, it would be illogical and self-defeating to abandon the WTO framework, given the phenomenal impact of expanded trade on global economic growth, together with the increasing extent to which American jobs depend on trade. The world has accomplished much in sixty years, but there is much more work to be done, particularly as the process of globalization broadens and accelerates. The United States and the world need the WTO more now than ever before.
- Second, success at Doha promises substantial economic gains. Indeed, a World Bank study released just last week estimates the global gains from further trade liberalization at nearly \$300 billion a year – even without factoring in productivity gains generated by additional competition.<sup>3</sup>
- Third, the same World Bank study states that the developing world stands to gain the most from a successfully completed Doha Round. According to the study, developing countries would obtain 45 percent of the gains reaped from freer trade, well above their one-fifth share of global output. This outsized potential gain stems from the fact that developing countries retain the highest barriers to trade, and because the developing world’s comparative advantage is in products, such as agriculture, that remain highly protected in world markets.
- Fourth, failure of the Doha Round would be the first since the creation of the GATT nearly sixty years ago. Failure would undermine the credibility of the WTO, which would be tragic, as it represents the world’s most significant and productive achievement in multilateral rule-making.

Given such high stakes, the United States and our trading partners in Europe and around the world must put the broader good ahead of special or parochial interests and recommit to doing what is necessary to bring the Doha Round to a successful and productive conclusion.

## **Trade in Financial Services**

The focus of this hearing is the promotion of economic growth through trade in financial services. This focus is appropriate, because the financial sector is unlike other sectors of the economy. Indeed, in many ways, it is the essential sector upon which the vitality and growth of all other sectors depend.

As we all know, starting a business, expanding an existing business, buying a home, sending a kid to college, really any productive or entrepreneurial activity, requires money – investment capital. Money and credit are the lifeblood of any economy. As the financial sector becomes more developed and sophisticated, capital formation becomes more effective and efficient, increasing the availability of investment capital and lowering costs. A more developed and sophisticated financial sector also increases the means and expertise for mitigating risk – by this I mean everything from derivatives for businesses to avoid price and interest rate risks, to insurance products to mitigate the risk of natural disasters.

The depth and flexibility of the financial sector is also critical to the broader economy's resilience – its ability to weather, absorb, and move beyond the inevitable booms and busts of a dynamic economy. For these reasons, the financial sector is really a “force multiplier” for progress and development, amplifying and extending the underlying strengths of an economy.

I decided to join the Financial Services Forum because I've been a regular customer of the industry for more than four decades. Like virtually every kid, my first experience with the financial sector was starting a small savings account – at the Spring Branch bank in Houston, Texas. When I started a business, I got a loan. And when I needed to make payroll, my banker helped me do it. Later in my career, when our company needed equity to grow and build value and create more jobs, we went to the capital markets. I knew this industry took good care of its customers, because they took good care of me, our employees, and our shareholders.

And all around the world – in western China; or Mumbai, India; or the Ache province of Indonesia – there are other kids with dreams of their own – to enjoy a life better than their parents knew, to go to college, launch a career, start a family, open a business, and make their community better. Every step of the way, those kids are going to need a financial partner – to get the loans they'll need, to help them save and invest, and to insure their cars, businesses, and homes.

The biggest impediment to development in the world's poorest countries is not a lack of generosity on our part or a lack of ideas or motivation on their part – it is a lack of financial freedom. In the poorest nations on earth, people can't gain title to their home so they can borrow money; can't start businesses without paying enormous bribes to authorities; can't turn their hard work and inventions into marketable products. These people can never prosper, even with all the charity in the world.

The surest way to deliver people from poverty is to get them jobs and allow them trade. And a great way to create more jobs is to help communities become part of the global financial community. Trade permits the sharing of world class know-how, best practices, and global standards. It raises the bar for everyone. And when that happens, the results are inspiring and

prove something we all hold dear: every life has promise, and we all should have a chance to succeed.

As each nation joins the global economic community, they will take different approaches, and each nation will make a unique contribution to our shared prosperity. But regional or national differences must not be allowed to justify protectionism or corruption. Nor should our differences get in the way of working toward the common goal of eliminating poverty.

When someone saves a dollar in a bank, or a peso or yuan or rupee, they should be able to do so with confidence. And when they want to invest, either at home or abroad, nothing should stand in their way. This is what is known as the free flow of capital – and it is the essence of what the financial services community stands for. Where opportunity exists, capital must be allowed to go.

Just as a free press allows ideas to thrive, and the free practice of religions allows faith to flourish, the free flow of capital is the single most important force driving the global economy. It was essential to America's rise as an economic giant – and it is essential to today's developing markets.

It's tempting for some to try to impede the free flow of capital. Some say that investment by foreigners in America, or investment by Americans in foreign markets, is a threat, and represents a loss of sovereignty. But when someone puts their money in your nation, it is not an invasion. It is a sign of faith and trust in your future. It is a sign of confidence that as you grow, your success will create success for others.

Economic growth is not a zero sum game – when it happens in one place in the world, it also will happen somewhere else. And our world will be better off for it.

America makes countless opportunities available to our young men and women so they can get an education, buy a home, start a business, and create opportunities for someone else to get a job. This happens because Americans believe in our young people, and because the United States has built a financial services industry that believes in taking chances on the future. I am proud to have joined an industry that sees opportunity everywhere, and stands ready to help bring prosperity to every corner of the globe.

## **Conclusion**

Madame Chairwoman, the global trading system is not perfect and will always remain a work in progress. And given the complexities – technological, political, and cultural – that stem from the accelerating pace of globalization, further trade liberalization is hard work. But that hard work is even more important today than it was following a catastrophic World War. To ensure that all nations reap the maximum benefit from trade, the global trading system must operate with predictability and transparency, without discrimination against the products of any nation, and providing the means to address unfair trade practices. This is the crucial responsibility of the World Trade Organization.

We must keep in mind that, while trade can cause transitional pain for some American workers, building walls around the United States would cause enormous permanent pain for all Americans. Imagine, for example, if U.S. computer companies were forced to make all their components at home: the cost of owning a computer would be much higher, so fewer businesses would have access to productivity-enhancing, wealth-creating tools, which help make them more profitable, grow faster, and better able to hire more workers.

By capitalizing on what different countries do best, trade lowers costs, frees up capital and other resources to be used more productively, raises living standards, promotes growth and development – all of which promotes faster job creation.

It's worth remembering that twenty years ago, many argued that the United States needed "common sense" protections and a government-initiated "national strategy" to prevent millions of manufacturing jobs from being "exported" to Japan and other Pacific rim "Asian Tigers." Fortunately, calls for protectionism and increased government direction of the economy were rejected. Instead, U.S. companies cut costs, increased research and development, and invested in productivity-enhancing technologies. As a result, the longest economic expansion in the nation's history was unleashed, creating 35 million new jobs and launching the information technology sector, whose jobs paid, on average, 75 percent more than the jobs sent overseas.

The United States is an economic phenomenon, with annual output exceeding \$11 trillion – greater than the total output of the next five most productive economies combined. This unprecedented economic success is not due to the size of the U.S. population or its natural resources – other countries have more – but to the free-market principles and policies around which the economy is organized. Free trade is a critical ingredient in that proven recipe for prosperity.

And the participation and leadership of the United States in the global trading system by way of the WTO remains a critical element for ensuring America's continued prosperity, and for meeting the challenges of ensuring a more stable and secure world.

Madame Chairwoman and members of the Committee, it is an honor to be with you today. Thank you for the opportunity to contribute to your deliberations.

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<sup>1</sup> "Trade, Growth, and Poverty," World Bank, 2001; Jeffery Frankel and David Romer, "Does Trade Cause Growth?" World Bank 1999; and Francisco Alcala and Antonio Ciccone, "Trade and Productivity," World Bank 2001.

<sup>2</sup> "World Development Report," World Bank, 1995, p. 55.

<sup>3</sup> Kym Anderson and Will Martin, "Introduction and Summary to Agricultural Trade Reform and the Doha Development Agenda," World Bank, November 2005.